BITOU

Municipality

DRAFT

Budget

2012/13 – 2014/15

Medium Term Revenue and Expenditure Framework

Contents Page

Glossary

Adjustments budget - Prescribed in Section 28 of the MFMA. The formal manner in which a municipality can revise its budget during the year.

Budget - The financial plan of the Municipality.

Budget-related Policy - Policy of a municipality affecting the budget or affected by the budget, such as the tariff policy, rates policy and credit control and debt collection policy.

Capital expenditure – Expenditure on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement -A statement showing when actual cash is to be received and spent by the Municipality. Cash payments do not always correspond with budgeted expenditure frameworks. For example, when an invoice is received by the Municipality, it is regarded as expenditure in the month, even it is not paid within the same period.

DORA - Distribution of Revenue Act. Annual legislation containing the total allocations by national government to provincial and local governments.

Equitable share - A general allocation paid to municipalities. It is mainly aimed at rendering assistance with free basic services.

Fruitless and wasteful expenditure - Expenditure done in vain and that could have been avoided if reasonable care was exercised.

GFS - Government Finance Statistics. An internationally recognised classification system making a type by type comparison between municipalities.

Grants - Money received from Provincial or National Government and other municipalities.

GRAP - Generally Recognised Accounting Policy. The new standard for municipal accounting.

IDP - Integrated Development Plan. The main strategic planning document of the Municipality.

KPI's - Key Performance Indicators. Measurement of service outputs and/or outputs.

MFMA - The Municipal Financial Management Act – No. 53 of 2003. The main legislation applicable to municipal financial management.

MTREF - Medium term Revenue and Expenditure Framework. A Medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budgetary allocations. Also includes details of the financial position of the preceding and current year.

Nett Assets -Nett assets are the residual interest in the assets of the entity after all its liabilities have been deducted. This means that the nett assets of the municipality equal the "nett welfare" of the municipality, after all assets had been sold/recovered and all liabilities had been paid. Transactions that do not fall under the description of Revenue or Expenditure, such as increase in the value of Property, Plant and Equipment, where no in- or outflow of resources occurs, are recorded under Nett Assets.

Operational expenditure - Expenditure on the day-to-day expenses of the Municipality, such as salaries and wages.

Property rates - Local authority rates based on the assessed value of a property. In order to calculate the rates payable, the assessed value is multiplied by the rate in the rand.

SDBIP - Service Delivery and Budget Implementation Plan. A detailed plan consisting of quarterly performance targets and monthly budget estimates.

Strategic Objectives - The main priorities of the Municipality as set out in the IDP. Budgeted expenditure must contribute to the achievement of the strategic objectives.

Unauthorised expenditure - In general, expenditure without, or in excess of an approved budget.

Virement - A budget transfer.

Vote - One of the main segments of a budget.

PART 1 – ANNUAL BUDGET

Section 1 – Mayoral Report

"... any intelligent fool can make things bigger and more complex.... It takes a touch of genius – and a lot of courage to move in the opposite direction. " - ***ALBERT EINSTEIN***

I specifically decided to quote the above famous words of Albert Einstein, because it is so relevant and descriptive.

To put this in perspective I first have to give some background on factors which lead to a very unfavourable start to the budget preparation process :

Firstly, I have inherited a projected cash deficit of R30 million which is the result of previous budgets which were not cash backed as legally prescribed. This meant that with past budgets, expenditure was sanctioned by Council without enough money to finance the cost. I believe that this terrible oversight by Council was based on poor advice and misleading numbers disclosed by previous officials which are not in service of our Municipality any more.

Secondly, we are confronted with a price hike in fuel and electricity prices, which cause a chain reaction in cost inflation, effecting almost every department of the Municipality.

Thirdly, we are also confronted with unreasonable public expectations.

This backlog, to start with,is now requiring *a touch of genius – and a lot of courage to move in the opposite direction,* as said by Einstein. With opposite direction I mean to turn away from a history of non cash backed budgets to a realistic, affordable and sustainable budget. However, to achieve this I have no other option but to apply a totally new approach in this budget which may be painful and unpopular to some, but unfortunately it is the right thing to do now to put the Municipality back on track financially. I also have a legal obligation in terms of section 21 of the MFMA to table a credible budget which is consistent with laws, regulations and our own policies.

Having said all the above, it is then now my privilege to submit the 2012/2013 Medium term Revenue and Expenditure Framework (MTREF) to Council as prescribed in section 16 (2) of the MFMA.

As this budget constitutes the proposed financial plan for the next 3 years, it impacts on the community as a whole and it is thus extremely important to consult the community with a view to accept joint ownership and joint responsibility for the welfare of the municipality's financial affairs. Consequently, a compulsory period of community liaison shall follow

before the final approval of this budget on 31 May 2012. Inputs and representations shall be considered and the budget revised accordingly.

Council's strategic objectives of service delivery include the continuation of an acceptable level of services, as well as improvement in those areas still lacking. It would also always remain a strategic objective to contain service delivery within the affordability levels of the community.

The tourism industry is the main economic activity in Bitou, and we therefore need to fulfill our responsibility to maintain and cherish our tourism facilities and to support tourism activities as they play a vital role in job creation and job security. Council also acknowledges its immense responsibility towards not only our community needs, but also the strategically important role fulfilled by Bitou as a tourist destination in the region as well as the country as a whole. It is thus crucial to maintain our infrastructure as a top tourism destination and to attempt to attract more tourists in an extremely competitive market.

To achieve the above, a balancing act is required between the set objectives and available financial resources together with a backlog in cash reserves, while taking into consideration the effect of tariff adjustments on the community as a whole, and the poor in particular. In addition, we have not escaped the downturn in the economy, which has had a considerable influence in Bitou, resulting in an increase in the number of registered indigent households. The tariff increases recently announced by ESKOM, and the effect of this price shock and the subsequent ripple effect on our expenditures, make the achievement of the service delivery objectives so much more difficult and a greater challenge. The challenge is further to achieve more with our existing resources and to increase our productivity level. In other words we have to be smarter and more creative in our service delivery.

Taking all of the above into consideration, I submit to you the following estimated expenditure summarised as follows:

TYPE	**2012/13 (000)**	**2013/14 (000)**	**2014/15 (000)**
Operating expenditure	339032	353350	375043
Capital expenditure	18868	33189	34641
TOTAL	**357900**	**386539**	**409684**

The Operating budget represents an increase of 10.5% in relation to the 2011/12 revised budget.

Included in the above, provision was made for the following:

- **Salary increases of 5% and scale notches as set out in the collective agreement.**
- **Provision was made only for the most crucial vacancies to be filled.**
- **Annual increase in Councillor Remuneration as approved by the Minister of Local Government.**
- **An increase of 13.5% in Eskom's bulk purchase price for electricity.**
- **Interest on capital costs for the payments of external loans previously not budgeted for.**
- **Increase in the costs of subsidies to the increasing number of indigent households.**
- **New valuation rolls to be implemented on 1 July 2013.**
- **Compulsory statutory provision for depreciation of assets and bad debt, and sufficient GRAP provision for post-employment medical contributions and long service awards. These provisions were previously ignored and or unrealistically cut, and are the biggest contributor to the cash deficit of the previous budgets. This oversight is now fully corrected.**

- **Capital expenditure will only be for projects of which Government Grants have been allocated. Provision for Capital expenditure financed from own funds amounts to R8.5 Million, but this will only be realized if a potential selling of a land option materializes.**

- **Although the 0.25:1 rebate principle for bona-fide agriculture zoned properties will remain, the rebate on property rates levied on agricultural land will be reviewed to be applicable only for bona-fide farmers outside the existing or future urban edge. Councils existing Property Rates Policy will be amended if it is in conflict with the envisaged changes to disallowed rebates.**

<u>In order to balance the budget and remain as far as possible within the fiscal parameters as prescribed and set by National</u>

Treasury, a tariff increase in all the tariffs (excluding for electricity) of 16.2% is inevitable.

Although the National Electricity Regulator (NER), has sanctioned a price increase of 13.5 % by ESKOM , we acknowledge the huge impact of the past increases in our households and more specific the trade and industries budgets and for that very reason we will increase the Municipality's tariffs for electricity with only 11.03% .

However, a new block tariff system will be applicable as from 1 July 2012. This is a compulsory prescription and it is aimed on consumers using higher than normal volumes of electricity units. In other words, the more units consumed, the more will be paid.

Considering the current state of the economy, the proposed increase in tariffs of 16.2%, which is significantly above the prevailing CPI, is a very unsatisfactory position to be in politically. But as already mentioned earlier, we have no other option, and is this now the painful penalty of a legacy of past improper budgets.

National, Provincial, District and local priorities for service delivery must be aligned and this is to a large degree achieved through the Integrated Development Plan process whereby communities give input in respect of service needs and which are then incorporated into the IDP. The different spheres of government then allocate resources to these requirements, but I must re-iterate that this is only possible to the extent that resources are available.

Our infrastructure development and maintenance objectives are to render services at acceptable levels to all, and for this purpose the 2012/13 budget provides for infrastructure projects totalling R18.868 million. Within our present means, this would only partly contribute to the national priorities as stated in the President's 2012 State of the Nation Address.

In addition, an amount of R15.608 million was budgeted for housing.

I believe we have done all in our power to address service delivery requirements within our financial means and I thank our community for their inputs in the IDP process, my fellow councillors for their continued hard work and support, as well as the Municipal Manager and his staff for their efforts.

In the beginning of my report, I have mentioned that we have endeavoured to move in an opposite direction with some brave unpopular restrictive measures to turn around our cash flow problems.

To achieve this all, a collective effort between our work force, Councillors and the community is absolutely necessary.

I close my report with the following famous words for your reflection when this budget is judged.

" I hope to stand firm enough to not go backward , and yet not go forward fast enough to wreck the country's cause .." **Abraham Lincoln**

Section 2 – Budget-related Resolutions

MTREF 2012/13

The below-mentioned resolutions shall be approved by Council in May upon the final adoption of the budget:

RESOLUTION:

[a]. That the annual budget of Bitou Municipality for the 2012/2013 financial year; and the projected indicative two years 2013/14 and 2014/15, as contained in annexure 2, be approved:

[b]. Property rates indicated in Annexure 1 be instituted for the 2012/13 budget year.

[c]. Tariffs and levies indicated in Annexure 1 be approved for the 2012/13 budget year.

[d]. the measurable performance objectives for revenue from each source in Section 7 for the 2012/2013 budget year be approved.

[e]. the measurable performance objectives for each vote as indicated for the 2012/2013 budget year be approved.

[f]. Council notes the amended Integrated Development Plan adopted on 31 May 2011, as summarised in Section 6.

[g]. Council notes the performance indicators submitted with the budget for subsequent approval by the Executive Mayor as set out in Section 7.

Section 3 – Executive Summary

Introduction

The annual operating and capital budget of Bitou Municipality for the financial year 2012/13 and the two indicative years 2013/14 and 2014/15 are hereby represented as prescribed in among others:

MFMA (Act 56 of 2003)

The Distribution of Revenue Act, 2011 and Provincial Budget announcements

Budget & Reporting Regulations 393 of 2009

Sections 215 & 216 of the Constitution

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act No 44 of 2003

This is the second budget of the municipality complying with the requirements of Generally Recognised Accounting Practice (GRAP) and consequently differs considerably from the budgets of preceding years.

Effect of the annual budget

The projected estimates for the MTREF are as follows: (R 000)

OPERATING BUDGET

Type	2012/13 (000)	2013/14 (000)	2014/15 (000)
Revenue	350 559	371 715	392 458
Expenditure	339 032	353350	375 043
Surplus	**11 527**	**18 366**	**17 415**

The above surpluses include non-cash entries. If the non- cash entries are isolated, a very marginal cash- backed surplus will result.

The percentage growth in the operational expenditure budgets is as follow:

2012/13 10.5 %

2013/14 4%

2014/15 6%

CAPITAL BUDGET

Objective	**2012/13 (000)**	**2013/14 (000)**	**2014/15 (000)**
Infrastructure assets			
Roads	2 213	15 200	7 638
Electricity	500	1 200	4 600
Water	7 655	12 959	18 653
Sanitation		3 000	1 500
Waste Management	5 000	200	
Community assets		200	
Other Assets			
Plant and Equipment		200	100
Vehicles			1 900
Furniture and Office Equipment		230	50
Land and Buildings	3 500		200
Total	**18 868**	**33 189**	**34 641**

The capital budget has been cut to the bone. The downscaling in capital projects is part of the forced process in the recovery of Council's cash- flow problems in attaining a cash-backed and credible budget as prescribed in terms of section 18 (1) of the MFMA.

The projected funding of the capital budget is as follows: (R 000)

Source of funding	**2011/12 (000)**	**2012/13 (000)**	**2013/14 (000)**
National Government	15 368	31 459	26 091
Other			

Loans			
Own Funds	3 500	1 730	8 550
Total	**18 868**	**33 189**	**34 641**

<u>Proposed main tariff adjustments are as follows:</u>

Property rates	16.2%
Refuse removal	16.2%
Sewerage	16.2%
Water units	16.2%
Electricity units	11.02%
Other Diverse Tariffs	5 %

This budget is prepared based on a mutual commitment and understanding between Council and Management that strict budget control, debt control and overall financial discipline will be maintained in order to achieve the budgeted goals as set out in this marginal budget.

By strict enforcement and execution of the credit control policy, together with an understanding of the prevailing economic climate, Council aims to maintain a rate of payment to meet Council's financial and constitutional obligations.

The priorities identified during the IDP process can only be funded within the financial means. Infrastructure expansion is budgeted at R18.868 million and housing at R15,608 million for the budget year. No significant changes were made to priorities that have been identified in the current IDP process.

The Municipality's budget must be viewed in the context of the policies and financial priorities of the National, Provincial and District authorities. Basically, the government spheres are partners in fulfilling the service delivery challenges experienced in Bitou. It is therefore essential that the other government spheres support the municipality by direct allocation of resources and subsidies to enable the municipality to maintain and achieve the long-term capital needs of the community.

<u>The National Context</u>

South Africa has achieved considerable success in achieving macro-economic stability; but the economy is still struggling under the high levels of unemployment and poverty.

The table below shows the grants to Bitou Municipality as determined in the National Distribution of Revenue Amendment Act (DORA) for the MTEF period;

Grants 2012/13 – 2014/15			
	Medium term estimates		
R million	**2012/13 (000)**	**2013/14 (000)**	**2014/15 (000)**
Equitable share	23 375	25 403	27 568
Infrastructure	15 368	31 459	26 001
Capacity building and restructuring	7 253	2 206	2 456
Housing	15 603	13 162	13 820

Included in the equitable share contributions are special contributions for Councillor Remuneration and services subsidies for indigent households.

National Treasury annually issues a circular in which they prescribe to municipality's norms and standards concerning the setting of tariffs, financial risks and other matters as budget parameters to follow pertaining to the drafting of their budgets. For 2012/13 the inflation projection to be used was determined at 5.9%.The10.5% growth in the proposed operating expenditure budget does not meet the prescribed ceiling of 5.9 %, but it is inevitable due to predominately GRAP provisions previously not budgeted.

However, the projected growth in the two indicative years to follow are 4% and 6% respectively which tie favourably to the CPI projections for 2013/14 and 2014/15 which are 5.3% and 5.1% respectively. These figures could, however, change rapidly due to external factors as experienced recently.

The set growth parameter is also applicable to tariff increases fixed by municipalities to ensure that all government spheres support the national macro-economic policy, unless it can be shown that external factors dictate otherwise. The proposed average increase of 16.2% in tariffs is far above the prescribed 5.9%, but this must be seen as a once off correction in past unrealistic tariff adjustments and mandatory GRAP adjustments. Furthermore the deficit in cash reserves and the mandatory cash-backed budget obligation in terms of section 18 of the MFMA justifies the above normal tariff increase.

There are no proposed material amendments to Council's budget-related policies. However, it might be that an amendment to the Property Rates policy needs to be implemented to allow proposed changes to the rebates applicable on the non bona-fide farming category. The policy documents are important guiding instruments in the drafting of the budget.

The major data and assumptions used during the drafting of the budget are as follows:

Increase in Employee-related costs	5%
Increase in inflation parameters	5.9%
Average rate of payment of accounts	93%

Basic services are supplied to all the towns within the municipal boundaries, and continued efforts are being made to maintain the services to continuously deliver reliable services. The total cost of delivering free services, as well as rebates to the community amounted to R16 311 million.

CONCLUSION

- This budget is cash-backed.
- Efforts were made to expand service delivery.
- Efforts were made to expand free basic services to poor households.
- Efforts were made to eradicate the cash- flow deficit.

Section 4 – Budget tables

The budget tables are attached - see Annexure 2

PART 2 – SUPPORTING DOCUMENTATION

Section 5 – Overview of annual budget process

Budget process overview

Political overview of the budget process

Section 53 of the MFMA stipulates that the Mayor should exercise general political guidance over the budgeting process and must direct the drafting of the budget.

Schedule of Key Deadlines in respect of the budget process [MFMA section 21(1)(b)]

The Act provides that the formal budget process must commence with the tabling by the Mayor in Council of a schedule setting out the key budget deadlines. This was compiled for tabling in Council at the end of August 2011.

Process followed to integrate the revision of the IDP and drafting of the budget

The budgeting process was integrated with the IDP during the IDP revision mechanism. The outcome of the consultation upon the IDP revision is taken into consideration in the budgeting process.

Process for tabling of the budget before Council for consultation

A statutory period of consultation follows the tabling of the budget before Council on 30 March 2011. Meetings with the local community shall be advertised in the local press after tabling of the draft budget.

The Executive Mayor shall consider the outcomes of these consultation meetings and a report in which the reactions are set out shall be tabled at the same meeting where the budget is to be tabled for final approval.

Process for approval of the budget

The budget must be approved by Council by 31 May 2012.

Process and media used to provide information on the budget to the community

All budget documentation, the MTREF, as well as tariffs and policies, shall be available at Council libraries and offices for perusal. It shall also be available on Council's website.

Advertisements informing the public about the availability of these documents and the schedules for the public hearings on the IDP and budget shall be published in all local papers and be put up at municipal offices and libraries.

Budget process 2012/13

The budget process in Bitou complies with the requirements of the MFMA.

A schedule of key deadlines was compiled for tabling before Council by the Mayor before the end of August 2011.

The proposed budget must be tabled before Council by the end of March 2012. This is followed by a period of consultation. After the consultation process, the Mayor needs to consider any representations and decide whether any amendments need to be made to the budget.

The final budget must be agreed upon by Council before the end of May 2012.

The Municipality's budget was once again drafted on a 3-year basis. It takes the National and Provincial 3-year allocations to the Municipality into account. It is necessary to plan and budget on a 3-year basis in order to take account of resource restrictions as well as capacity restrictions in respect of service delivery. The MFMA requires that municipalities draft 3-year budgets to ensure more thorough financial planning and to make provision for seamless service delivery.

As was the case last year, however, both capital and operating revenue and expenditure figures in the outer years in the current uncertain economic climate are indicators of need or desire and in some cases hope, rather than actual figures.

The municipality shall set out measurable performance objectives to link the financial inputs of the budget with service delivery on the ground. This shall be done in the form of quarterly service targets and monthly financial targets contained in the Service Delivery and Budget Implementation Plan (SDBIP). This must be agreed upon by the Mayor within 28 days after agreement on the final budget and forms the basis for the Municipality's monitoring during the year.

Section 6 – Overview of alignment of the annual budget with the Integrated Development Plan

The Integrated Development Plan is aimed at addressing service delivery needs on a continuous basis by identifying new needs or areas of improvement. It is however also a well-known fact that the needs far exceed the available resources, and financial resources in particular.

The alignment as reflected in supporting tables SA5 and SA6, of the budget with the objectives set out in the IDP is as follows:

	2012/13 (000)	2013/14 (000)	2014/15 (000)
Municipal transformation and organisation development	36 629	38 476	40 354
Municipal financial viability and management	29 077	27 591	28 204
Promotion of tourism and local economic development	16 068	17 433	17 783
Good governance and public participation	23 130	24 212	25 358
Basic service delivery and infrastructure development	209 463	222 999	239 607
Human development	24 665	22 639	23 737

Section 7 – Measurable performance objectives and indicators

Measurable performance objectives and indicators as reflected in supporting table SA 8 must be determined for the next year and included in the annual SDBIP: -

Key financial indicators and ratios:

- Debt cover ratio (Total operating revenue, minus grants and subsidies, divided by debtors)
- Services debt to revenue ratio (Total outstanding services debt, divided by revenue for services received)
- Cost cover ratio (cash equivalents, divided by monthly fixed operating cost)

Measurable performance objectives for:

Revenue for each budget vote

Revenue for each source

Operating and capital expenditure for each vote

When developing these measurable performance objectives, the following needs to be taken into consideration -

The municipality's Integrated Development Plan (IDP)

Economic development initiatives that facilitate job creation, economic growth, poverty alleviation

Provision of basic services

Measurable performance objectives for rendering free basic services

The measurable performance objectives for the provision of free basic services in respect of property rates, water, sanitation, waste management and electricity must provide details of -

The amount in rand value of each of the free basic services

The level of service that is delivered free

The number of households to receive each of the free basic services

The total budgeted cost of provision of each of the free basic services

The total budgeted revenue lost by providing each of the free basic services

Section 8 – Overview of budget-related policies

*The **policies** are not included in this budget documentation. It is however available for perusal at Council's head office in Bitou, as well as on the Internet at www.bitou.gov.za This Section offers a **general overview** of the budget policy framework and sets out the amended policy to be approved by Council resolution.*

Name of policy	**Type**		**Purpose/ Basic areas covered by policy**	**Summary of changes**	**Responsible Manager**
REVENUE-RELATED					
Tariff	Unchanged		Set criteria for fixing of services tariffs	N.A.	CFO
Property rates	Changed		Set criteria for fixing property rates	N.A.	CFO
Credit control and Debt collection	Unchanged		Principles and guidelines to be followed i.r.o. control of arrears debts	N.A	CFO
BUDGET AND EXPENDITURE					
Cash Management and Investment policy	Unchanged		Guideline of procedures to be followed when money is invested or borrowed	N.A	CFO
Budget process	Unchanged		Set budget principles and procedures	N.A	CFO

Borrowing policy	Unchanged		Borrowing framework for the borrowing of funds	N.A	CFO
Virement policy	Unchanged		Procedures to shift budgeted amounts between votes	N.A. .	CFO
Supply Chain Management	Unchanged		Dictate procedures for the procurement of goods and services	N.A.	CFO
Funding and Reserve Policy	Unchanged		Set guidelines for budget	N.A.	CFO

Section 9 – Overview of budget assumptions

Budget assumptions

Budgets are drafted in uncertain conditions. In order to draft meaningful budgets, assumptions must be made about internal and external factors that may affect the budget. This Section offers a detailed summary of the assumptions used in drafting the budget.

***External Factors*:**

Due to the current economic climate, there is no real growth in the municipal area, or in the number of households, which results in a stagnating growth factor. However,in reality the number of poor households (earning < R1 600 p.m.) has increased.

Job opportunities are limited, and the National budget has identified job creation as a priority and suggested that municipal capital and maintenance projects should assist them in this by implementing labour-intensive projects within their financial means. This is a big ask to municipalities in this current economic climate where the contrary is more relevant and where this Municipality is forced to rather down scale on activities due to financial constrains and affordability by the community.

General inflation outlook and the impact thereof on municipal activities

General inflation (CPIX) is estimated at 5.9% for the 2012/13 financial year. This naturally leads to expectations that municipal tariffs should increase by more or less the same percentage, which is impossible due to the wage increase settlement at national level, the increase in bulk electricity fees of 13.5% by ESKOM, and also the full implementation of GRAP requirements.

In addition to this, the historical errors of past budgets have impacted now on the new proposed tariffs which were discounted for in this budget as a correction of past unrealistic tariffs.

	2012/13	2013/14	2014/15
General inflation	5,9%	5.3%	4.9%

Interest rates for borrowing and investing funds

The following assumptions are built into the MTREF;

	2012/13	2013/14	2014/15
Average Interest Rate – Loans	10%	11%	11%
Average Interest Rate – Investments	4.5%	4.5%	4.5%

Property rates, tariffs, levies and time framework of revenue collection

The property rates, tariffs and levies for the 2011/12 budget are included in Annexure A.

The table below shows the accepted average percentage increases built into the MTREF for property rates, tariffs and levies;

	2012/13	2013/14	2014/15
Property rates	16,2%	6%	5%
Annual fixed levies – sanitation and sewerage	16.2%	6%	5%
Electricity – monthly consumer tariff * *Average proposed increase. The final increases shall be approved by Council after the outcome of NERSA's approval.*	11.03%	11.03%	11.03%

In general terms the time framework of property rates, tariffs and levies is based on the following:

Property rates and annual charges	Annual and monthly accounts in July. Interim accounts during the year as required.
Consumer tariffs	Monthly accounts. Prepaid meters. Seasonal variations.
Levies	Generally constant throughout the financial year with seasonal deviations

Growth or decrease in tax base of the municipality

The growth in the tax base is the main determining factor of the affordability of new infrastructure development. Long term financial modelling shows a resource shortage in the resources required for infrastructure development over the next 15 years. As mentioned earlier, the expansion of the tax base however shows a stagnating trend with little growth. Should this trend continue, it would result in significant pressure on future rates and tariffs.

It also seems that the Municipality cannot afford further external loans and it is clear that the municipality will be more dependent on Government Grants to provide in their capital needs.

The stagnated tax base and the increasing needs together with capital deficits shall require prudent and extremely responsible financial planning for the future. We are blessed to live in a very beautiful and special part of the world and we have a huge responsibility to maintain and conserve our precious town and surrounding rural area. To maintain a safe, healthy and attractive environment, with relatively affordable tariffs will be non negotiable.

The following assumptions concerning future growth were made in the MTREF:

	2012/13	**2013/14**	**2014/15**
Growth in tax base – Property rates	.1%	.1%	.1%
Consumer levies (%)	0%	0%	0%

Collection rates for each revenue source and client type

The Municipality has a fair yet strict credit control policy in place and a relative above average record of debt collection. Furthermore our policy on indigent support and social rebates means that many households that would normally struggle to pay their accounts receive free or subsidised basic services, which exempts them from the burden of municipal debt.

Despite this, there will always be an element of non payment of accounts. Similar to any other businesses, sufficient provision must be made for bad debt based on assumptions of historical collection rates.

The following assumptions were made in the MTREF for bad debt and collection rates of rates and tariffs.

R '000	**2012/13**	**2013/14**	**2014/15**
Provision for bad and doubtful debt	20 384	19 629	18 672
Assumption for collection rate (services levies)	93%	94%	95%
Assumption for collection taxes	90%	91%	92%

Price fluctuations on specific items

Bulk purchases from ESKOM:

R '000	2012/13	2013/14	2014/15
Eskom	73 882	83 850	95 165

Average salary increases

The MTREF includes the following average percentage increases for personnel cost (Councillor allowance increase subject to announcement by SALGA):

	2012/13	2013/14	2014/15
Councillors	5%	5%	5%
Senior Managers	5%	5%	5%
Administrative, professional, technical, clerical staff & manual labourers	5%	5%	5%
Medical fund contributions	5%	5%	5%

Industrial relations climate, reorganisation and capacity building

The ability of the Municipality to deliver quality services depends on its staff and the capacity to deliver services to the Bitou community at a viable and sustainable level. To achieve this, the municipality has to rely on quality, reliable and sufficient personnel. Failing to do this will ultimately result in the inability to deliver services and to overcome the challenges which the municipality has to face.

The Municipality has made the following amounts available for training over the MTREF period:

R '000	2012/13	2013/14	2014/15
Training budget	742	779	818
Study aid	53	55	58

Changing demand characteristics (demand for services)

Bitou must respond to changing demand for services due to various possible reasons such as population migration, changing demographic profile technological changes and major infrastructural development.

The introduction of wireless technology in Bitou has made the internet accessible to considerably more people, which enables online interaction with the Municipality. This, together with the upgrading of the financial computer system (SAMRAS D- Base 4), enables electronic account payments and direct access to computer information.

The growth of formal housing in previous years affects the demand for services and poses a challenge to the Municipality on how services are delivered.

Trend in demand for free and subsidised basic services

Bitou's criteria for offering free and subsidised services is set out in the policy on indigent support. Government allocates revenue by means of the Distribution of Revenue Act (DORA) in the form of the Equitable Share Grant which has the primary aim of assisting municipalities with the cost of provision of free or subsidised services.

Impact of national, provincial and local policy

Bitou's Council has committed themselves to co-operate in partnership with national and provincial government spheres and district municipalities to meet the priority needs of its people.

Expenditure is monitored closely throughout the year and Directors must ensure that capital schemes are supported by concerted planning. The Municipality is continuously revising its capital planning process.

The SDBIP includes monthly cash flow of expenditure and is used as the basis for budget monitoring.

Implications of restructuring and other major events in the future

The budget does not make provision for establishing of a Regional Electricity Distributor for Bitou as great uncertainty still exists on how and when it is to be established.

Funding compliance

The budget is cash-based, which is an indication of a "credible" budget.

Funding levels are acceptable with cash resources for 12 months – which is remarkable in these economic times, and sufficient to cover all requirements of the funding and reserve policy.

There is a considerable increase in tariffs above the CPIX projection, mainly as a result of the electricity increases.

Section 10 – Overview of budget funding

Funding of the Budget

Section 18(1) of the MFMA determines that an annual budget can only be funded from:

- Realistically expected revenue to be collected;
- Cash-backed accumulated funds of preceding years' surpluses not earmarked for other purposes; and
- Borrowed funds, but only for the capital budget referred to in Section 17.

Full achievement of this requirement effectively entails that a Council 'balances' its budget by ensuring that the budgeted outflow balances with a combination of planned inflow.

A Credible Budget

A credible budget, among other things, is a budget, which:

- Only funds activities which are in line with the revised DIP and vice versa and which ensures that the IDP is realistically achievable while taking account of the financial restrictions of the municipality;
- Is achievable in respect of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are in line with current and previous performance and that are supported by documented evidence of future assumptions;
- Does not compromise the financial viability of the municipality (ensures that the financial position is contained within generally accepted prudent limits and that obligations can be met in the short, medium and long term); and
- Provides managers with suitable levels of delegation to enable them to fulfil their financial managerial responsibilities.

A budget sets out certain service delivery levels and accompanying financial implications. Consequently the community must realistically expect to receive these promised service levels and to understand the accompanying financial implications. High underspending due to undercollection of revenue or poor planning is a clear example of a budget that is not credible and realistic.

Furthermore, budgets tabled as early as 90 days before the start of the budget year, must remain credible and fairly close to the final approved budget.

Fiscal Overview of Bitou Municipality

Bitou Municipality is unable to afford the salaries of qualified personnel to address and apply the needs and prescripts of GRAP. Qualified personnel to draft the statutory financial statements and reporting is a prerequisite of GRAP. There is a shortage of qualified accountants in South Africa and due to the technical complexity of GRAP implementation in local government, and the fact that a shortage already exists outside the metropolitan areas, it is highly improbably that qualified accountants would be available to work for the salaries offered. Bitou has therefore taken steps to manage the situation externally.

Long term financial planning

Long term loans are a method of ensuring that the principle of "the future consumers or beneficiaries of the assets financed by the loan, also contribute to the future use or benefit arising from the assets", and this principal was applied as a long term financial strategy in the past.However, this normal practise could not be applied in this year's budget because the finance cost to re-pay further loans is not affordable at this stage. This now has the result that capital spending could only be possible if Government Grants are allocated to the Municipality.

It is also evident that the present cash-flow situation will forced Council to refrain from capital projects funded with operational revenue and loans until the cash position has normalised.

The municipality has made provision, although not cash- backed, for long-term employee benefits consisting of medical aid contributions for retired personnel and for the payment of long service bonuses.

As stated earlier in the report, it is the first time that the budget is fully compliant with GRAP standards. This will assist the basis for sound financial practices and compliance in terms of the MFMA and GRAP.

Sources of funding

Interest earned from investments is recorded in the operating revenue budget. The interest earned is expected to remain constant due to a relative stable national monetary policy regarding interest rates and the fact that due to the pressure on council's cash and cash equivalents, no increase in investments will be possible.   The following tables summarised the budgeted interest as reflected in the MTREF;

	2012/13 (000)	**2013/14 (000)**	**2014/15 (000)**

Investment interest	506	531	558

Contributions and donations

The Municipality may receive augmentation fees which serve as bulk service levies from new developers to provide infrastructure and other works as part of the conditions set with the granting process. This is very unpredictable but with the existing economic climate it is expected that new developments will not follow past tendencies.

Selling of assets

The Municipality is revising its land and asset ownership as part of its longer term financial strategy. Major asset sales are therefore excluded from the MTREF at this stage.

Section 11 – Expenditure on grant allocations and grant programmes

Grant allocations

Details of each allocation appear in the schedule below:

National and Provincial Conditional Grant Allocations 2012/13 to 2014/15						
Name of Grant	**Operating / Capital**	**Allocating authority / Department**	**Amount 2012/13 R'000**	**Indicative 2013/14 R'000**	**Indicative 2014/15 R'000**	**Aim of allocation**
Integrated housing and human settlement development grant	Operating	Province/ Local Government and Housing	15 608	13 162	16 353	To finance the funding requirements of national housing programmes (excluding recurring costs that may be received from assets resorting under the pre -1994 inventory).
Extended Public Works Programme	Operating	National Government	1 000			To ensure the establishment and maintenance of integrated and sustainable human settlements, economically viable and socially equal communities in areas with ecological integrity and convenient and safe access to economic opportunities, health, educational and social amenities.
Library Services	Operating	Province/ Cultural Affairs and Sport	3 907			To enable public libraries to render improved services by addressing personnel shortages.
Public Roads	Operating	Province/Local Government and Housing vote	37			To provide financial assistance to municipalities to cover the operating costs in respect of proclaimed roads.

Name of Grant	Operating / Capital	Allocating authority / Department	Amount 2012/13 R'000	Indicative 2013/14 R'000	Indicative 2014/15 R'000	Aim of Grant
Local Government Financial Management Grant (FMG)	Operating	National Government/ National Treasury	1 250	1 250	1 450	To further and support reforms in financial management by building capacity in municipalities to implement the Municipal Financial Management Act.
Municipal Systems Improvement Grant (MSIG)	Operating	National / Provincial and Local Government	800	900	950	To assist municipalities in expanding internal capacity to perform their functions and to stabilise institutional and governance systems.
Municipal Infrastructure Grant (MIG)	Capital	National / Provincial and Local Government	14 655	15 459	16 353	To supply capital finances for basic municipal infrastructure for poor households, micro enterprises and social institutions. The operating portion is used for the Project Management Unit.
Integrated National Electricity Programme	Capital	National Government	500	1 000	4 000	Funds to do electricity connections to previously disadvantage areas
Community Development Workers (GOW)	Operating	Provincial	54	56	56	To do community work in rural areas

Name of grant	**Operating / Capital**	**Allocating authority / Department**				**Aim of Grant**
Neighbourhood Development Partnership Grant (NDPG)	Capital	National / National Treasury (National Vote 7)	213	15 000	5 738	To provide municipalities with technical assistance to develop suitable project proposals for property developments in underserviced neighbourhoods and new residential neighbourhoods and to make provision for erecting and upgrading community facilities for neighbourhood development and/or renewal projects that attract private sector funding and inputs where applicable
Equitable Share	Operating	National / Provincial and Local Government	23 375	25 403	27 568	The equitable share of National Revenue in accordance with the requirements of the Constitution

Section 12 – Grants and allocations made by the Municipality

Allocations made by the Municipality

None

Any allocations made to an external body must comply with the requirements of Section 67 of the MFMA. This provides that before any funds may be transferred to an external organisation, the Municipal Manager as accounting officer must be satisfied that the organisation or body has the capacity to fulfil the agreement and has sufficient financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that no discretionary funds may be appropriated in the budget seeing as such funds are not transparent during the consultation process.

Section 13 – Annual budgets and service delivery and budget implementation plan – internal departments

The disclosure of the annual budget and the service delivery and budget implementation plan of internal departments must provide an executive summary of the SDBIP for each internal department of the municipality.

Where internal departments cover more than one vote, details must be provided for each vote.

Each departmental executive summary must at least include the following -

A reference where the public may find the complete departmental SDBIP.

A short description of the services rendered, the level and standard of service rendered to each client group may be included.

A description of the capacity and structure of senior management.

An explanation how the department's objectives and indicators align with the Integrated Development Plan (IDP).

A description of the changes to the service levels and standards over the period covered in the medium term revenue and expenditure framework.

Comments on the performance of the preceding year and the impact on future performance objectives.

Summary of revenue per source, and operating and capital expenditure per type;

A summary of any risks in achieving revenue projection, any expected major movements in revenue patterns and any planned alternative sources of revenue;

A description of the most important features of expenditure, including pointing out discretionary and non-discretionary expenditure; and

A short description of the departmental capital programme in the context of the overall capital programme of the municipality.

Section 14 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms

ENTITIES

The municipality has no entities.

OTHER SERVICE DELIVERY MECHANISMS

None

Section 15 – Contracts with future budget implications

The municipality has no roll-over contracts with budget implications

Section 16 – Legislative compliance status

Municipal Financial Management Act -No 56 of 2003

The MFMA took effect on 1 July 2004. The act modernises budget and financial management practices within the overall aim of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finances, including budget, supply chain management and financial reporting.

The various sections of the Act are being phased in according to the designated financial management capacity of municipalities. Bitou municipality has been designated as a medium-capacity municipality.

The MFMA forms the basis of the municipal management reforms implemented by municipalities.

The MFMA and the budget

The following explains the budget process in terms of the requirements of the MFMA. It is based on National Treasury's manual on the MFMA.

<u>The budget drafting process</u>

The Mayor must direct and drive the budget drafting process by means of a co-ordinated cycle of events commencing at least ten months before the start of each financial year.

<u>Overview</u>

The MFMA requires a Council to adopt a three-year capital and operating budget taking into account and aligning with the municipality's current and future development priorities and other finance-related policies (for example relating to the provision of free basic services).

These budgets must clearly set out the revenue per source and expenditure per vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any details on loans, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may only be funded from reasonable estimates of revenue and cash-backed surplus funds of the previous year and loans (the latter for capital items only).

Budget drafting time schedule

The first step in the budget drafting process is to develop a time schedule of all key deadlines relating to the budget and to revise the Municipality's IDP and budget-related policy.

The budget drafting time schedule is compiled by senior management and tabled by the mayor for adoption by Council by 31 August (ten months before the start of the next budget year).

Drafting of the budget and revision of the IDP and policy

The Mayor must co-ordinate the budget drafting process and the revision of Council's IDP and budget-related policy with the assistance of the municipal manager.

The Mayor must ensure that the IDP overview constitutes an integral part of the budgeting process and that any changes to strategic priorities as contained in the IDP document, are based on realistic projections of revenue and expenditure. In developing the budget, management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other applicable agreements or Acts of Parliament. The Mayor must consult the relevant District Council and all other local municipalities in that district as well as the applicable provincial treasury and the national treasury in drafting the budget, and must upon request provide certain information to National Treasury and other government departments.

The drafting process should ideally take place between August and November in order that draft consolidated three-year budget proposals, IDP amendments and policy could be made available during December and January. This allows time in January, February and March for preliminary consultation and discussion of the draft budget.

Tabling of the draft budget

By 31 March, the mayor must submit the initial draft budget to Council for review.

Publication of the draft budget

After submission to Council, the Municipal Manager must disclose the relevant budget documentation and submit it to the National Treasury and the relevant provincial treasury and any other state departments as required. At this stage, the local community must be invited to make representations on the contents of the budget.

Opportunity to comment on draft budget

After submission of the draft budget, Council must consider the opinions of the local community, National Treasury and the relevant provincial treasury and other municipalities and state departments who submitted representations on the budget.

Opportunity for revision of draft budget

After considering all opinions and representations, Council must allow the Mayor the opportunity to react to the representations received and, if

necessary, to revise the budget and submit amendments for Council's consideration.

After tabling of the draft budget at the end of March, the months of April and May must be used to accommodate public and government comments and make any revisions that may be necessary. This could assume the form of public hearings, Council debates, formal or informal delegations to National Treasury, provincial treasury and other municipalities, or any other consulting forums designed to address the priorities of interested parties.

Adoption of the annual budget

Thereafter, Council must consider the approval of the budget by 31 May and formally adopt the budget by 30 June. This offers Council a 30-day window period to review the budget several times before final approval.

Should a Council fail to approve its budget during the first meeting, the budget, or an amended copy thereof, must be reconsidered within seven days and so on until it is eventually approved - before 1 July.

As soon as the budget is approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must submit a draft SDBIP and draft annual performance agreement for all the senior personnel to the Mayor for approval within fourteen days after approval of the budget (no later than 14 July).

A SDBIP is a detailed plan for implementation of the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days after approval of the annual budget (no later than 28 July).

This plan must then be monitored by the Mayor and it must be regularly reported on to Council.

Managing the implementation process

The municipal manager is responsible for implementing the budget and must take steps to ensure that all expenditure occurs according to the budget and that revenue and expenditure is properly monitored.

Deviation from budget estimates

In general, Council may only incur expenditure if it is in accordance with the budget, within the limits of the amounts appropriated for each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside these parameters may be regarded as unauthorised, or in some cases irregular and fruitless or wasteful. Unauthorised expenditure must be reported and could result in criminal prosecution.

Review of budget estimates – the adjustments budget

It may on occasion be necessary for Council to consider a revision of its original budget due to material and considerable changes in revenue collections, expenditure patterns, or forecasts thereof for the remaining part of the financial year.

In such cases, a municipality may adopt an adjustments budget drafted by the municipal manager, submitted to the Mayor for consideration and tabled before Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in rates and tariffs and it must contain relevant justifications and supporting material when it is approved by Council.

Requirements of the MFMA in respect of the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget must be in the prescribed format and sets out what is to be included in that format. In MFMA circular 48, National Treasury offers detailed guidance on the contents of budget documentation and the supporting schedules. Bitou Municipality has done its utmost to comply with the circular.

The table below shows how Bitou Municipality complies with the disclosure requirements of Section 17 of the MFMA.

Requirement	**Disclosure in budget documentation**
Schedule of reasonably expected revenue for the budget year from each source of revenue	SECTION 4 (annexure B)
Schedule indicating expenditure appropriations for the budget year under the various votes of the Municipality	SECTION 4 (annexure B)
Schedule setting out the indicative revenue per revenue source and projected expenditure per vote for the two financial years following on the Budget year	SECTION 4(annexure B)
Draft resolutions - (i) approval of the budget of the Municipality (ii) instituting any municipal rates and fixing any municipal tariffs as may be required for the budget year and (iii) approval of any other matters that may be prescribed.	Section 2
Measurable performance objectives for revenue for each source and for each budget vote, taking	Section 7

account of the Municipality's Integrated Development Plan.	
Proposed amendment to the Municipality's integrated development plan after the annual review of the IDP in terms of Section 34 of the Municipal Systems Act	
Any prescribed information on municipal entities under the exclusive or shared control of the Municipality	N.A.
Details of all prescribed new municipal entities that the Municipality wishes to establish or which the Municipality wishes to participate in	N.A.
Details of any proposed service delivery agreements, including material amendments to existing service delivery agreements	Section 14
Details of any proposed grants or allocations by the municipality to - (i) other municipalities (ii) any municipal entities and other external mechanisms that assist the municipality in performing its functions or powers (iii) any other state organs (iv) any organisations or bodies referred to in Section 67 (1) (bodies outside die Government)	Section 11
The proposed cost to the municipality for the budget year of the salaries, allowances and benefits of - (i) each political office-bearer of the Municipality (ii) councillors of the municipality (iii) the municipal manager, the chief financial office, any senior manager of the municipality and any other official of the municipality with a remuneration package greater or equal to that of a senior manager	Section 9
The proposed cost in the budget year for a municipal entity under the exclusive or shared control of the Municipality for the salaries, allowances and benefits of -	N.A.

(i) each member of the entity's board and (ii) the chief executive officer and each senior manager of the entity	

Other Legislations

In addition to the MFMA, the following legislation also impacts on the Municipal budget;

<u>The Distribution of Revenue Act, 2011 and Provincial Budget announcements</u>

Three-year national allocation to local government is published annually according to municipality in the Distribution of Revenue Act. The Act imposes duties on municipalities additional to the requirements of the MFMA, specifically regarding reporting obligations.

Allocations to the Municipality from Provincial Government are announced in the Provincial budget and published.

Section 18 of the MFMA provides that annual budgets may only be funded from reasonably expected revenue to be collected. The provision in the budget for allocation of National and Provincial government must include the allocations announced in the DORA or the applicable Provincial Gazette.

<u>The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003</u>

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act are closely linked with that of the MFMA. In particular, the following requirements must be considered in the budget process;

- Chapters 4 and 5 relate to community participation and the requirements for the Integrated Development Plan process.
- Chapter 6 covers performance management that links with the requirement for the budget to contain measurable performance indicators and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirements of producing a tariff policy.

Section 17 – Quality Certification by Municipal Manager

I, M.G. Gilomee, Acting Municipal Manager of Bitou Municipality, hereby declares that the annual budget and supporting documentation have been drafted in accordance with the Municipal Financial Management Act and the regulations issued under this act, and that the annual budget and supporting documentation are aligned with the Integrated Development Plan of the Municipality.

M. G . Gilomee

Acting Municipal Manager

Signature …………………………………………………

Date ……………………………………………………………….

Annexure A – Property rates and tariffs 2012/13

Property rates, tariffs and other levies

Kindly refer to the attached tariff schedule.

The average increase for 2012/13 are:

- Property rates 16.2%
- Refuse 16.2%
- Water 16.2%
- Sewage 16.2%
- Electricity 11.02%
- Other (Miscellaneous) 5%

All budget documents are available on the official website: www.bitou.gov.za

This include the :

- ***Medium Term Revenue and Expenditure Framework 2012/13 – 2014/15***
- ***Schedule of tariffs & levies 2012/13***
- ***Budget-related decisions***
- ***Budget-related policies***

ANNEXURE B – BUDGET TABLES